

# U.S. Homeowners Market

Casualty Actuarial Society Spring Meeting

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TOWERS WATSON 

# Agenda

- Market Overview
  - Market Definition
  - Direct Written Premium Growth
  - Direct Written Premium by State
  - Top Writers
  - Distribution Methods
- Financial Results
  - Underwriting Results
  - Expenses
  - Catastrophes
  - Segmentation of Financial Results

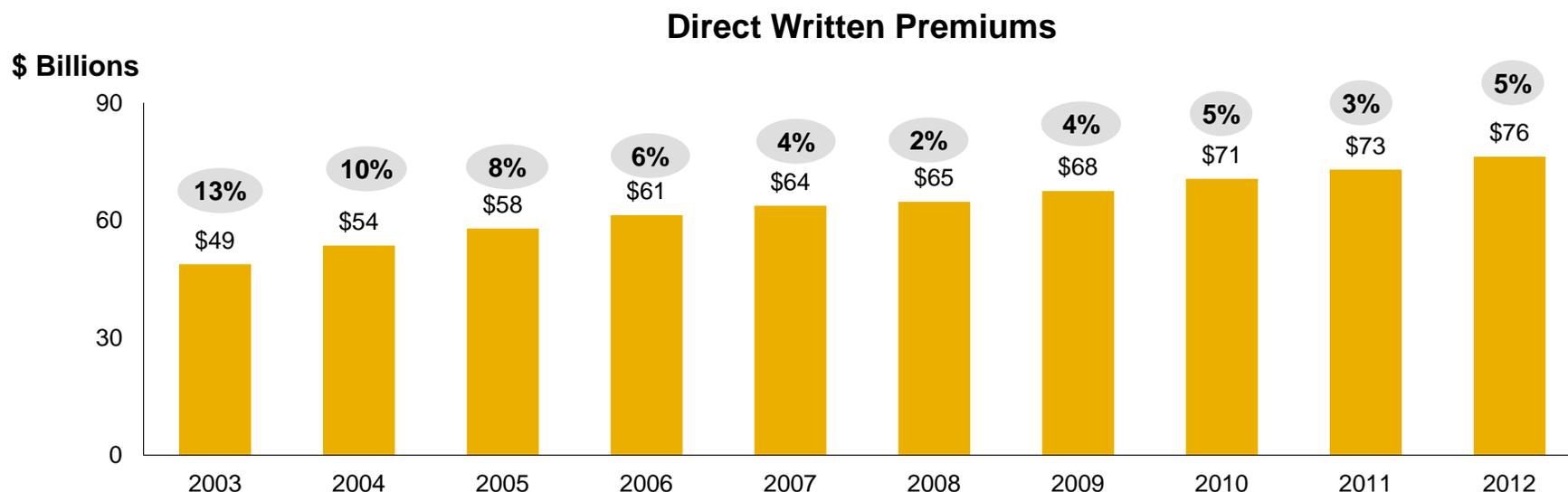
# Market Overview

- **Market Definition**
- **Direct Written Premium Growth**
- **Direct Written Premium by State**
- **Top Writers**
- **Distribution Methods**

## Defining the homeowners insurance market

- For the purpose of this study, we have defined the homeowners market as consisting of the homeowners annual statement line of business
- Lines with personal property exposure that are not included in homeowners are:
  - Farmowners
  - Fire
  - Allied Lines
  - Inland Marine
  - Earthquake
  - Burglary and Theft
- Results for involuntary market mechanisms are included only to the extent that such mechanisms file statutory property and casualty annual statements
  - Results for Florida Citizens Property Insurance Corporation are included

## The U.S. homeowners market represents approximately \$76 billion in 2012 direct written premiums



**Estimated Percentage Change in Avg. Premium\*:**

0.0%	5.0%	4.0%	3.7%	3.6%
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**Growth Drivers**

- Pricing up in recent years due to increasing frequency and severity trends; continued premium growth expected
- Population increases in coastal areas puts upward pressure on rates; companies seek to manage catastrophe exposure
- Unstable economic conditions may temper increase in premiums as fewer insureds purchase second homes or remodel existing homes. Also, new housing starts are low compared to prior years

\*Average Premium includes increases in the amount of insurance. Exposure base is an earned house year.

Source: SNL; industry press; Towers Watson estimates.

## Average premium grew 60% between 2002 and 2012

- Growth rate averaged 5.5% per year
- High growth rate in 2002 and 2003 following poor underwriting results in 2001
- The growth rate was steady at about 4%-5% per year in 2005 and 2006
- The growth rate slowed significantly in 2007 and 2008, likely resulting from:
  - Favorable underwriting results in 2006
  - Companies trying to grow
  - Rate suppression in hurricane-prone states following the major hurricanes in 2004 and 2005
  - The economic recession
  - Homeowners looking for ways to reduce premium
- The rate of growth increased to 5% in 2009

Year	Average Premium	Percent Change
2000	\$469	3.8%
2001	\$493	5.1%
2002	\$544	10.2%
2003	\$612	12.5%
2004	\$670	9.5%
2005	\$700	4.5%
2006	\$733	4.7%
2007	\$744	1.5%
2008	\$744	0.0%
2009	\$782	5.0%
2010	\$813	4.0%
2011*	\$843	3.7%
2012*	\$874	3.6%

Source: Insurance Information Institute; Countrywide.

\*Projections.

## Nine states account for approximately half of the homeowners premiums written — with very mixed results

State	2012 Written Premium (\$ Millions)	Share of National Total Based on 2012 WP	2008-2012 Loss Ratio	2010 Average Premium
1. Florida	\$8,384	11%	35%	\$1,361
2. California	7,039	9%	43%	802
3. Texas	6,407	8%	72%	1,321
4. New York	4,725	6%	53%	868
5. Illinois	3,013	4%	74%	702
6. Pennsylvania	2,860	4%	66%	621
7. Ohio	2,425	3%	86%	548
8. Michigan	2,358	3%	65%	683
9. Georgia	2,351	3%	89%	743
10. New Jersey	2,231	3%	76%	746
11. North Carolina	2,007	3%	67%	680
12. Massachusetts	1,882	2%	46%	899
13. Virginia	1,867	2%	55%	631
14. Minnesota	1,709	2%	77%	842
15. Louisiana	1,684	2%	52%	1,412
All Other	\$26,890	35%	73%	\$721
<b>Total</b>	<b>\$77,833</b>	<b>100%</b>	<b>64%</b>	<b>\$791</b>

Source: SNL, Insurance Information Institute, Towers Watson calculations.

## The homeowners market is relatively concentrated

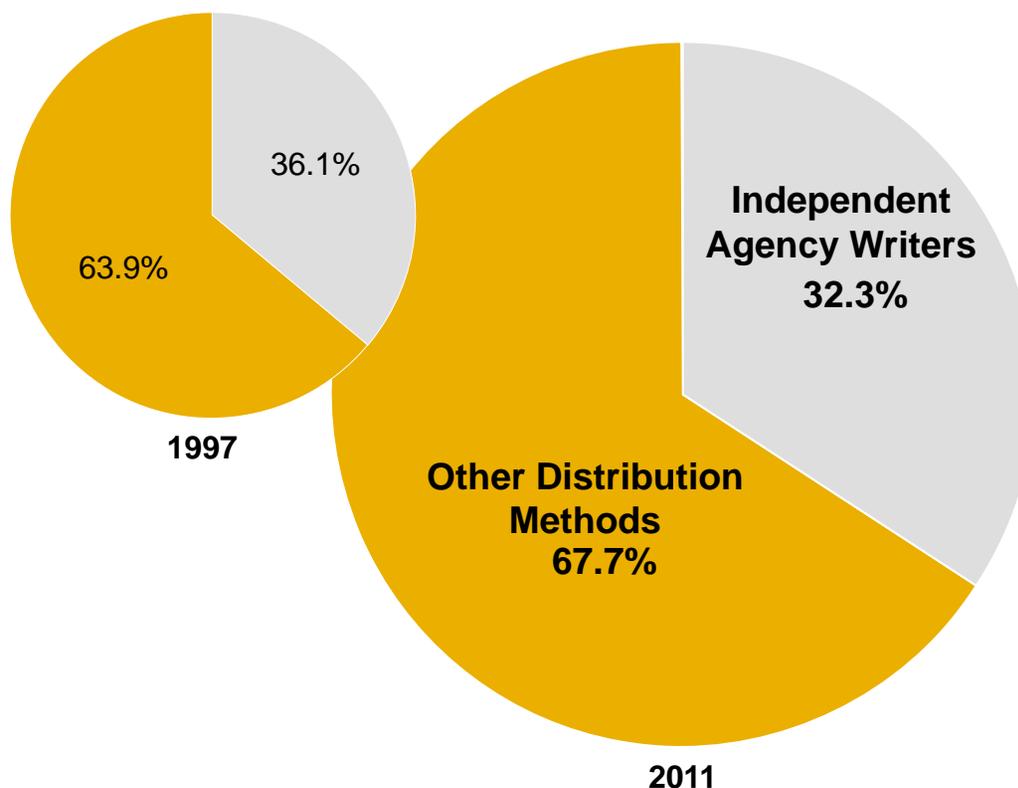
Top Writers of Homeowners	2012 DWP	Market Share
• State Farm	\$16,299 M	20.7%
• Allstate	7,167 M	9.1%
• Farmers	4,824 M	6.1%
• Liberty Mutual	4,628 M	5.9%
• USAA	3,856 M	4.9%
• Travelers	3,450 M	4.4%
• Nationwide	2,945 M	3.8%
• Chubb	1,887 M	2.4%
• Citizens	1,637 M	2.1%
• American Family	1,585 M	2.0%
• Top 5		47%
• Top 10		61%
• Top 15		68%
• Top 20		72%
• Top 25		76%

- Just over 400 groups in the U.S. are writing homeowners
- Most of the top 10 carriers are national in scope
- 47% of the market is written by the top 5 carriers. More concentrated than in other lines:
  - Commercial Auto Liability 32%
  - Commercial Multi Peril 34%
  - General Liability: Occurrence 32%, Claims-Made 44%
  - Products Liability 31%
- Citizens Property Insurance Corporation, Florida's state-run property insurer, is growing again
  - Citizens is the largest homeowners writer in Florida with almost 20% of the Florida market share and ranks 9<sup>th</sup> countrywide with 2.1% of the national market share
  - Citizens decreased DWP in 2008 and 2009 as private insurers assumed targeted portions of its homeowners business
  - Citizens began growing again in 2010 with a 36% increase in policies

Source: SNL; Citizens Property Insurance Corp; Towers Watson calculations.

## More than two-thirds of the U.S. homeowners market is written by direct writers and exclusive agents

Estimated Distribution of Premium by Distribution Method



There has been a slight shift in recent years to direct writing and exclusive agency systems

2011  
2011 DWP: \$71 Billion

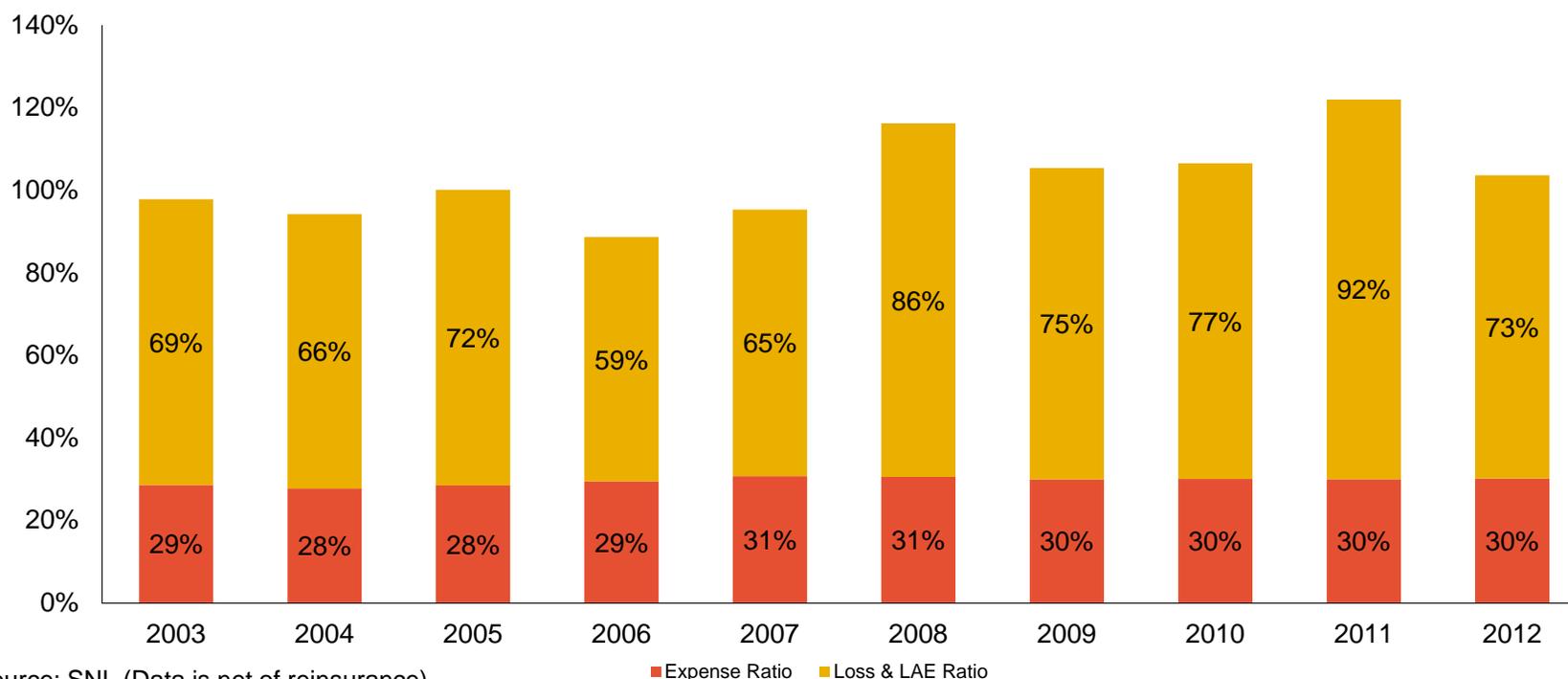
Source: A.M. Best. A.M. Best refers to the independent agency writers as agency and other distribution methods as direct.

# Financial Results

- **Underwriting Results**
- **Expenses**
- **Catastrophes**
- **Segmentation of Financial Results**

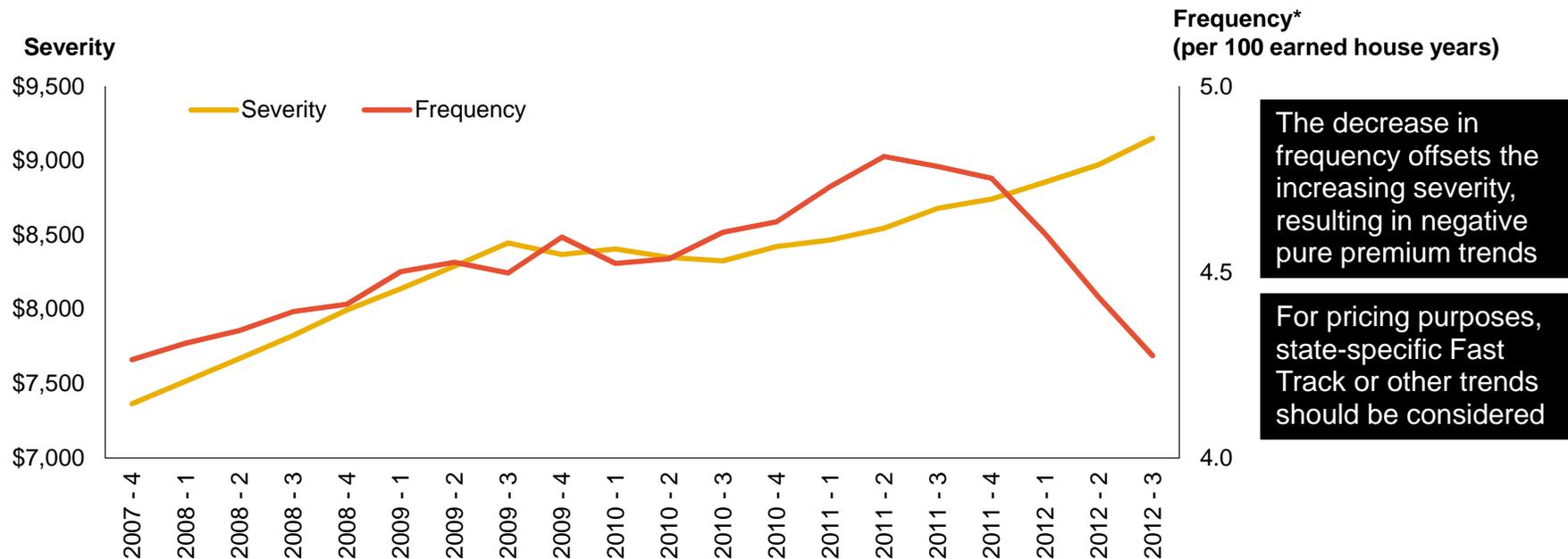
## As evidenced by the high loss ratios in 2008 and 2011, the homeowners line is vulnerable to catastrophes and other weather-related events

- Loss ratios are highly influenced by catastrophe activity
  - After significant catastrophe losses in 2005, the net loss and LAE ratio was lower in 2006 and 2007
  - Loss experience was poor in 2008, due to high catastrophe and non-catastrophe losses
  - Improved catastrophe experience in 2009 and 2010 resulted in lower net loss and LAE ratios; however, the total loss experience is still worse than 2007 and prior
  - The net loss and loss adjustment expense (LAE) ratio rose significantly in 2011 due to catastrophe activity
- Expense ratios are generally stable and change slowly over time
  - Expense ratios do not vary with size of insurer, except for the smallest carriers, where the expense ratio is much higher



Source: SNL (Data is net of reinsurance).

## Recently, frequency has decreased as severity continues to increase



	Trends	Frequency	Severity	Pure Premium
Linear	1-Year	-14.2%	6.0%	-8.2%
	2-Year	-4.8%	4.7%	-0.2%
	3-Year	-0.8%	3.3%	2.4%

	Trends	Frequency	Severity	Pure Premium
Exponential	1-Year	-13.3%	6.2%	-7.9%
	3-Year	-0.9%	3.3%	2.4%
	4-Year	0.4%	2.8%	3.3%

\*Rolling 12-month frequency and severity.

Source: Fast Track, Towers Watson calculations; losses and claim counts exclude catastrophes.

## Homeowners underwriting expense ratios are generally stable

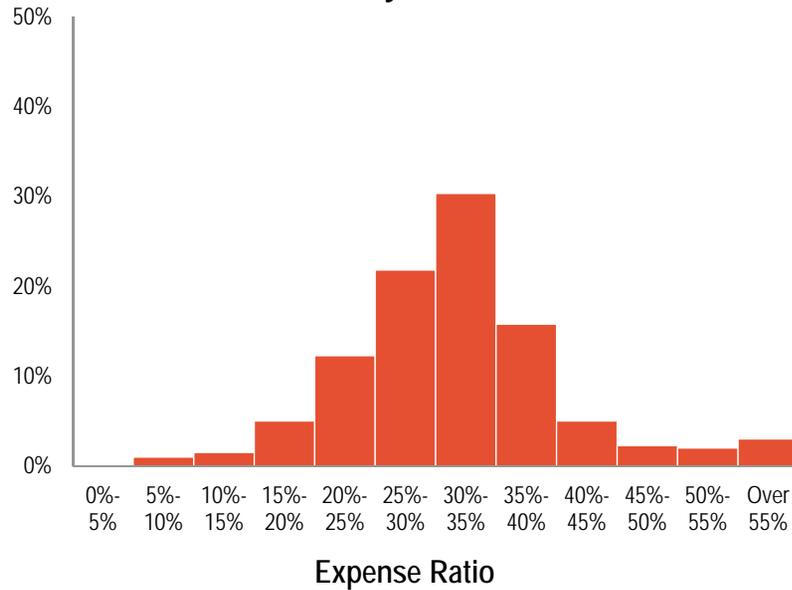
- Traditionally high expenses for homeowners (27.9% in 2011 vs. 26.1% for all other P/C lines), driven mainly by higher acquisition costs
- Acquisition costs (commissions and other acquisition costs) higher than for industry as a whole (21.1% in 2011 vs. 17.5% for all other P/C lines)
- Loss adjustment expense (LAE) ratios are impacted by claims activity

	2008	2009	2010	2011	2012
<b>Average Industry Expense — Ratios to Written and Earned Premiums*</b>					
Commission and Brokerage	13.5%	13.5%	13.4%	13.2%	13.2%
Other Acquisition	7.8%	7.8%	7.8%	7.7%	7.7%
General Expenses	4.6%	4.6%	4.4%	4.5%	4.3%
Taxes, Licenses, Fees	2.3%	2.2%	2.3%	2.3%	2.3%
Total	28.3%	28.0%	27.9%	27.7%	27.6%
<b>Loss Adjustment Expense — Ratios to Incurred Losses</b>					
ALAE (DCC)	2.5%	2.8%	2.9%	2.3%	2.7%
ULAE (AOE)	12.0%	14.7%	12.2%	11.2%	13.2%
Total	14.5%	17.5%	15.1%	13.5%	15.8%

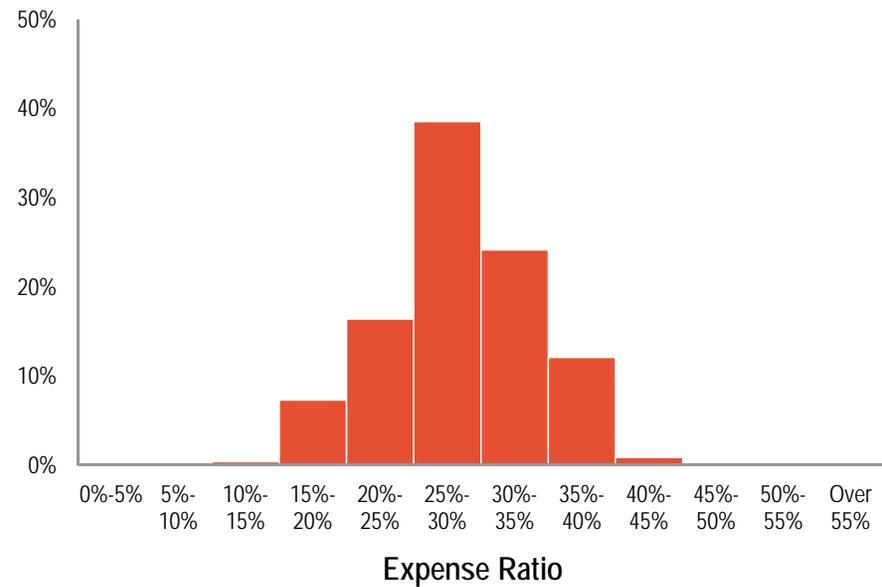
\*Commission and Brokerage and Taxes, Licenses, Fees to written premium; Other Acquisition and General Expenses to earned premium.  
Source: IEE (Direct), Calendar Years 2008 – 2012; SNL.

## Homeowners expense ratios across insurers generally fall in the 25% – 35% range

2008 – 2012 Average Expense Ratio Distribution by Number of Insurers

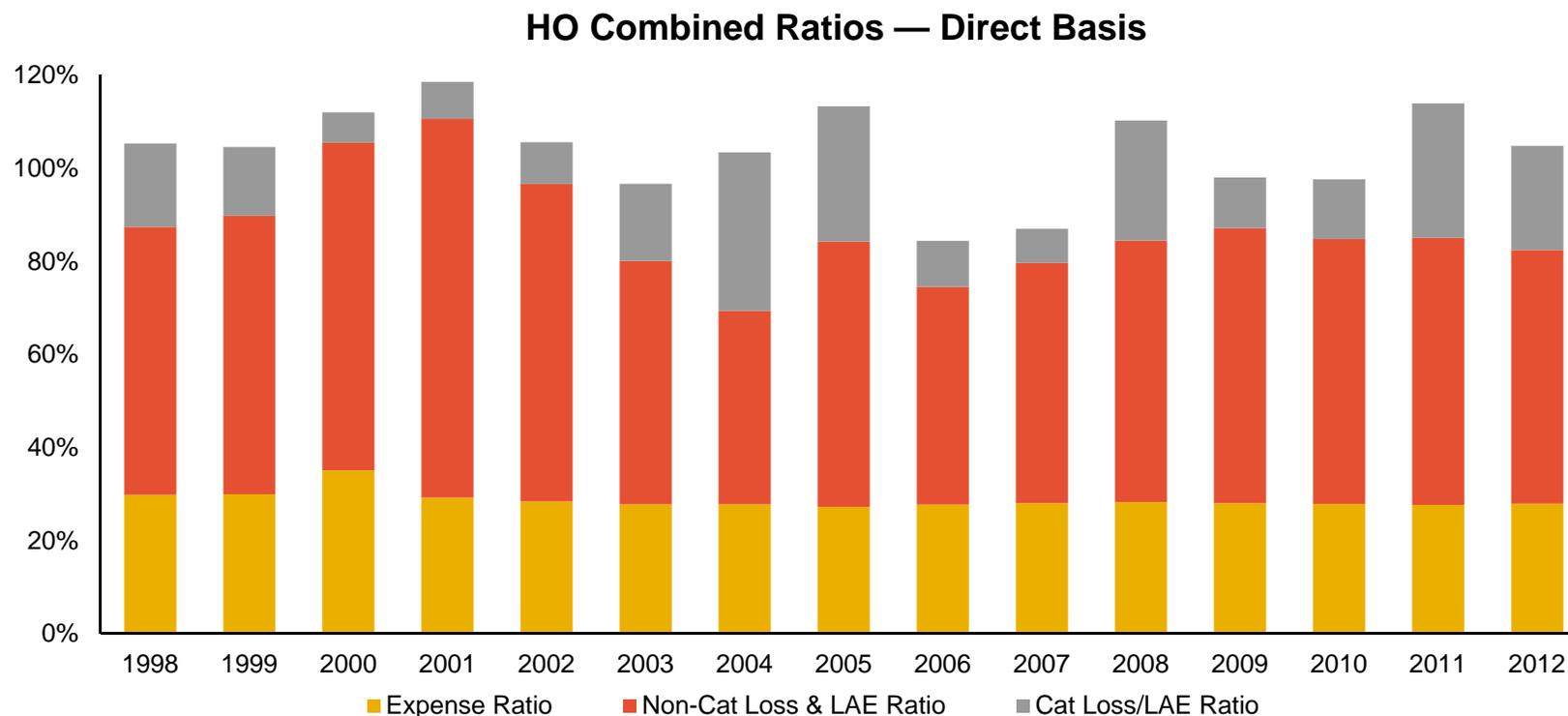


2008 – 2012 Average Expense Ratio Distribution by Direct Written Premium



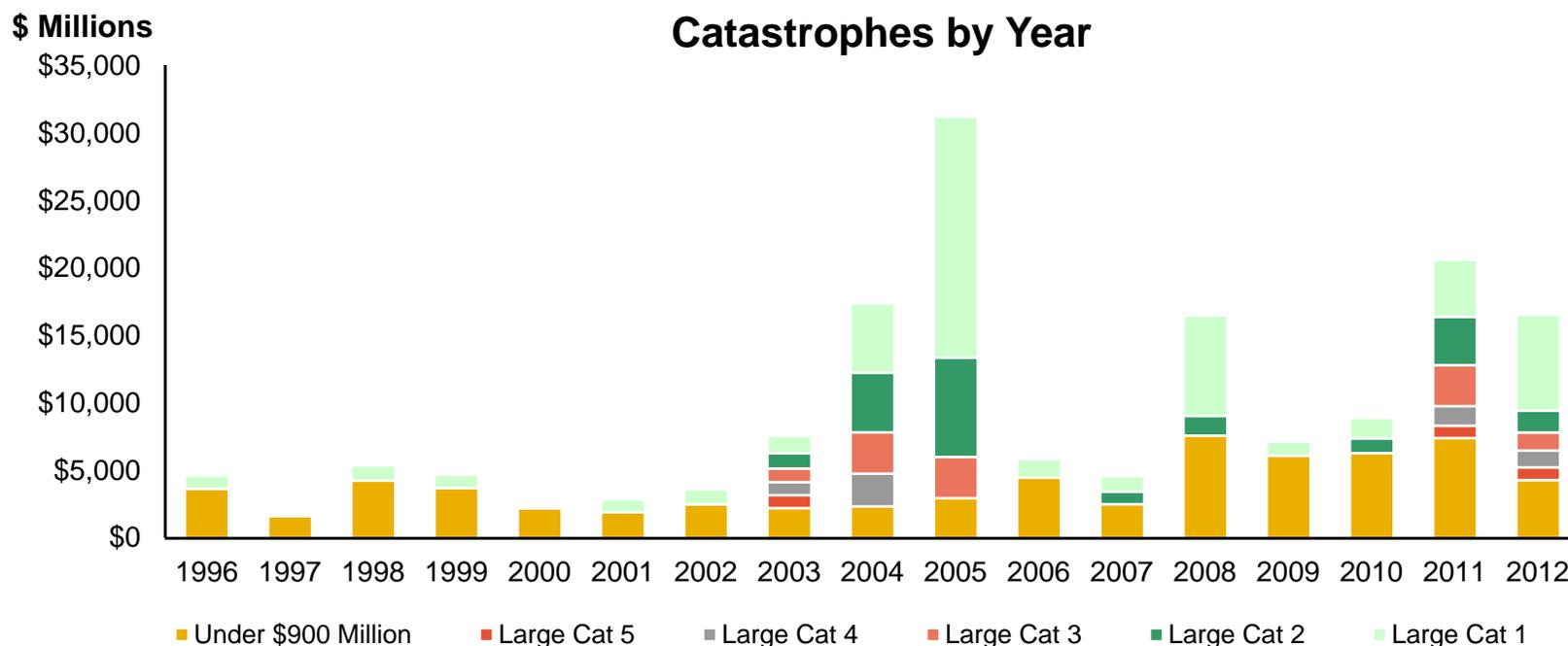
**Although there is a large number of insurers with expense ratios outside the 25% – 35% range, they are among the smallest, as measured by premium**

## Catastrophes change the combined ratio pattern significantly



- With catastrophes, the best and worst years have been 2006 and 2001, respectively
- Without catastrophes, the best is 2004 and worst is 2001
- Fluctuations in the non-cat loss ratio can also have a large impact on homeowners results

## Over the past 17 years, homeowners catastrophe losses have been concentrated in a few years



1996: Fran

1998: Tornadoes, Wind and Hail

1999: Tornadoes, Wind and Hail

2001: Tornadoes, Wind, Hail and Flooding

2002: Tornadoes, Wind, Hail and Flooding

2003: Isabel, Tornadoes, Wind, Hail, Flooding,  
CA Wildfires, Winter Storm

2004: Charley, Ivan, Frances, Jeanne

2005: Katrina, Rita and Wilma

2006: Tornadoes, Wind and Hail

2007: Wildland Fires, Tornadoes, Wind, Hail and Flooding

2008: Gustav, Ike, Tornadoes, Hail and Winds

2009: Tornadoes, Wind, Hail and Flooding

2011: Irene, Tornadoes, Wind, Hail and Flooding

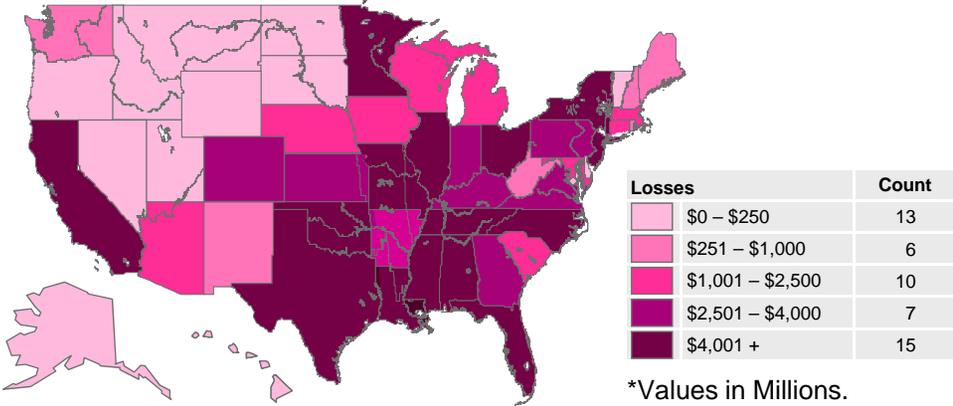
2012: Sandy, Flooding, Hail, Tornadoes, Wind

Note: September 11, 2001, did not have a significant effect on homeowners.

Source: PCS Data 1996 – April 2013; Towers Watson calculations.

# Catastrophes for homeowners have great geographic concentration

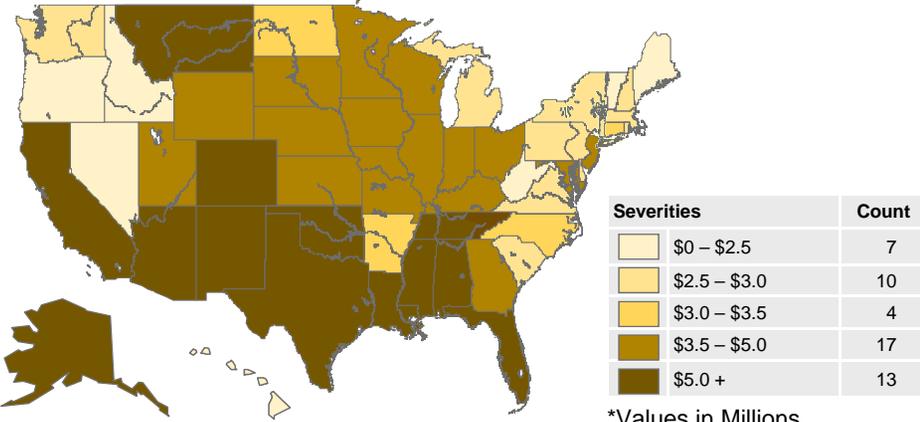
Catastrophe Losses\*



**Overall Loss:** Concentration in CA (earthquakes and wildfires); the Gulf Coast (hurricanes); NC (wind); Midwest (winter storms, tornadoes and hail)

\*Values in Millions.

Catastrophe Severities\*

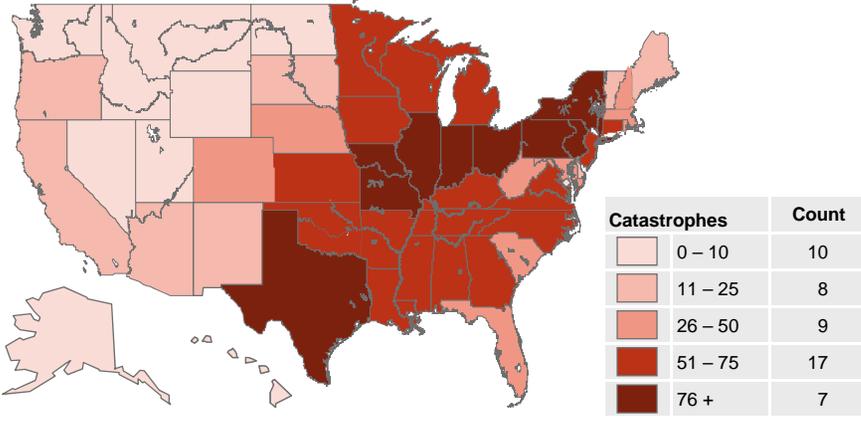


\*Values in Millions.

**Severity:** High losses from less frequent earthquakes, hurricanes, wildfires, winter storms

Source: PCS 1996 – April 2013.

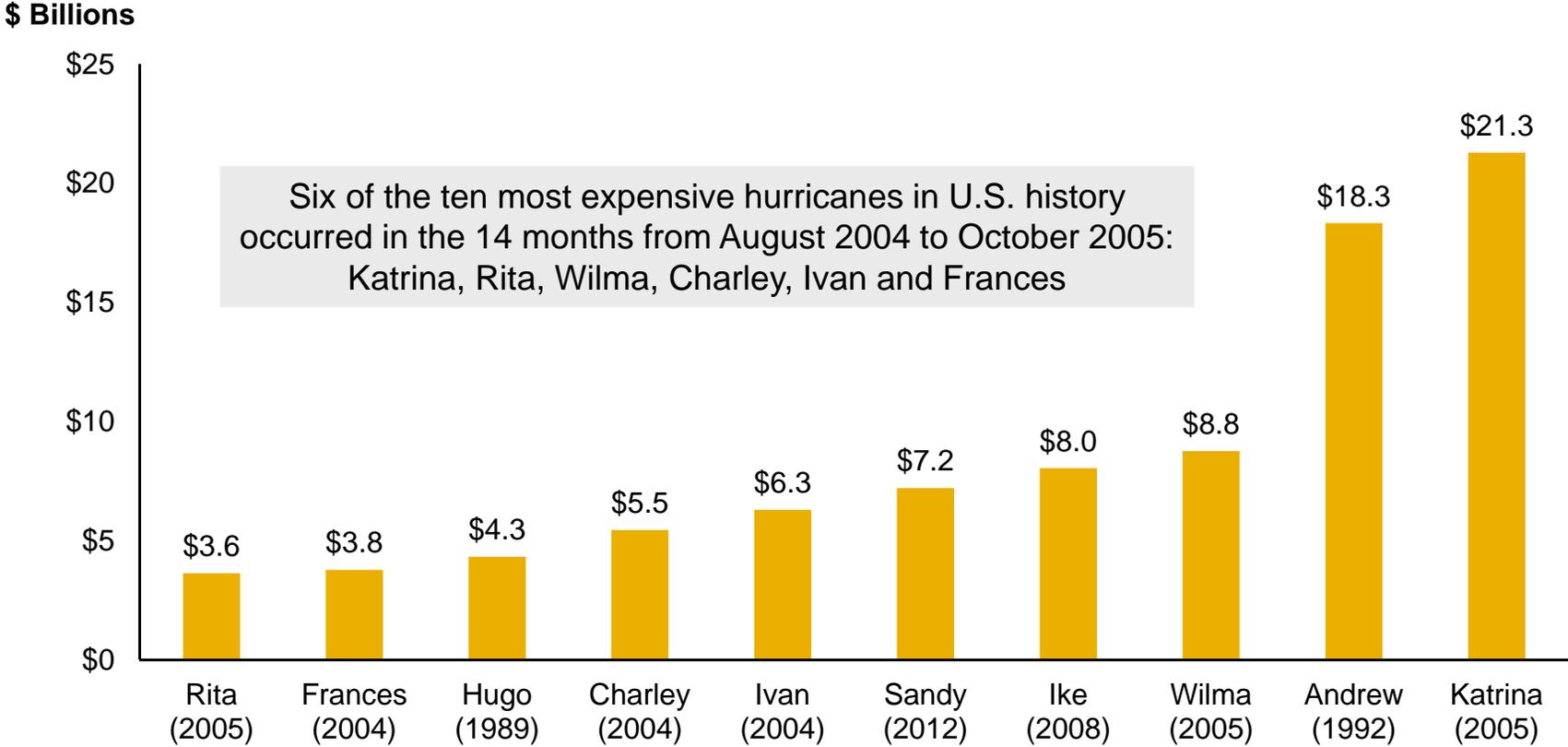
Number of Catastrophes



**Frequency:** Belt of hail and windstorms from Texas to New York

# 2004/2005 were record years for catastrophe activity

## Top 10 Most Costly Hurricanes in U.S. History Insured Homeowners Losses in 2013 Dollars

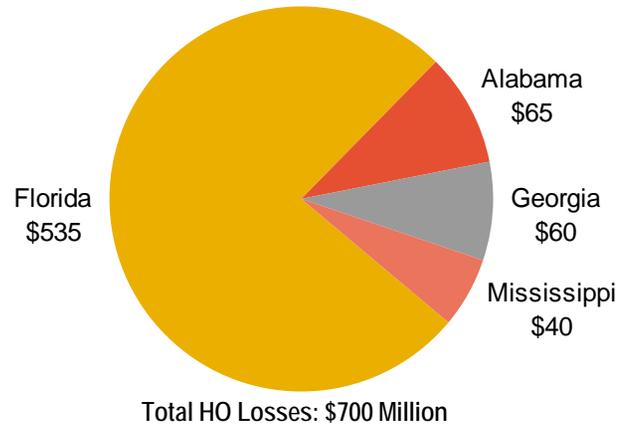


Source: PCS Data, American Institute for Economic Research for conversion to 2013 dollars.  
Final property losses not available for Andrew and Hugo. Estimates based on earlier projections.  
Hurricane Hugo include losses in Puerto Rico and/or U.S. Virgin Islands.  
Hurricane Jeanne also occurred in 2004, but is not in the top 10 costliest hurricanes (ranked #12).

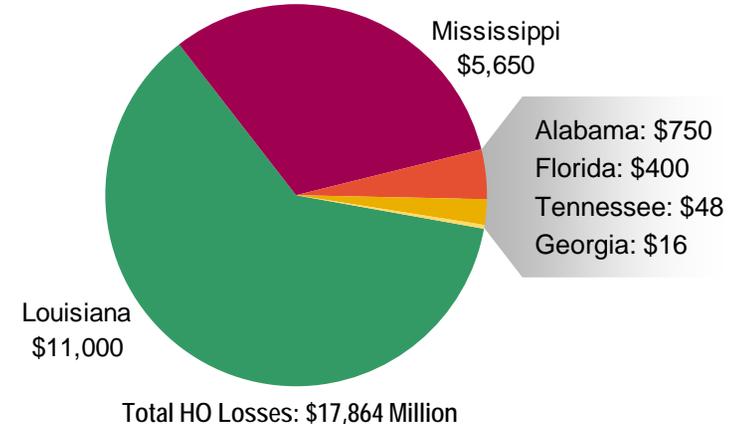
## 2005 was a record year for catastrophe activity

### 2005 Homeowners Catastrophe Losses in 2005 Dollars (Losses in Millions)

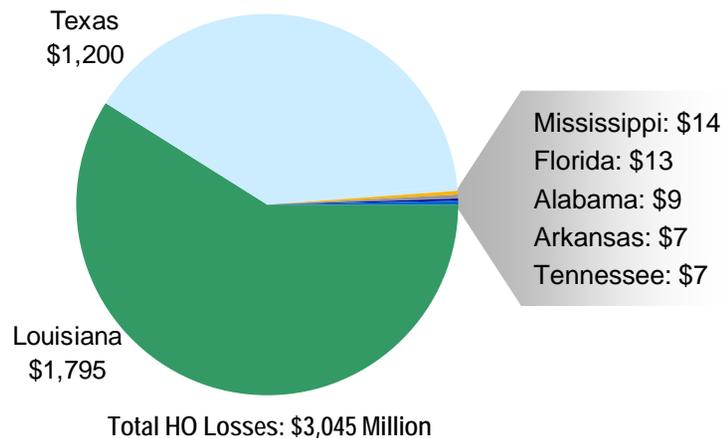
Hurricane Dennis — July 2005



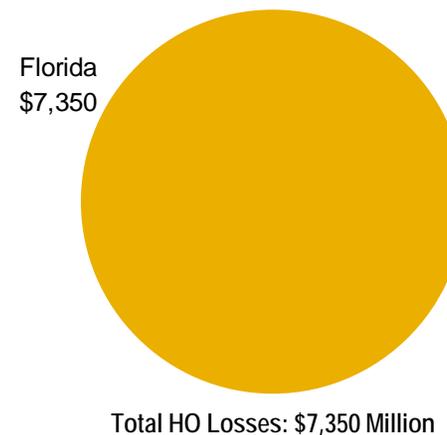
Hurricane Katrina — August 2005



Hurricane Rita — September 2005



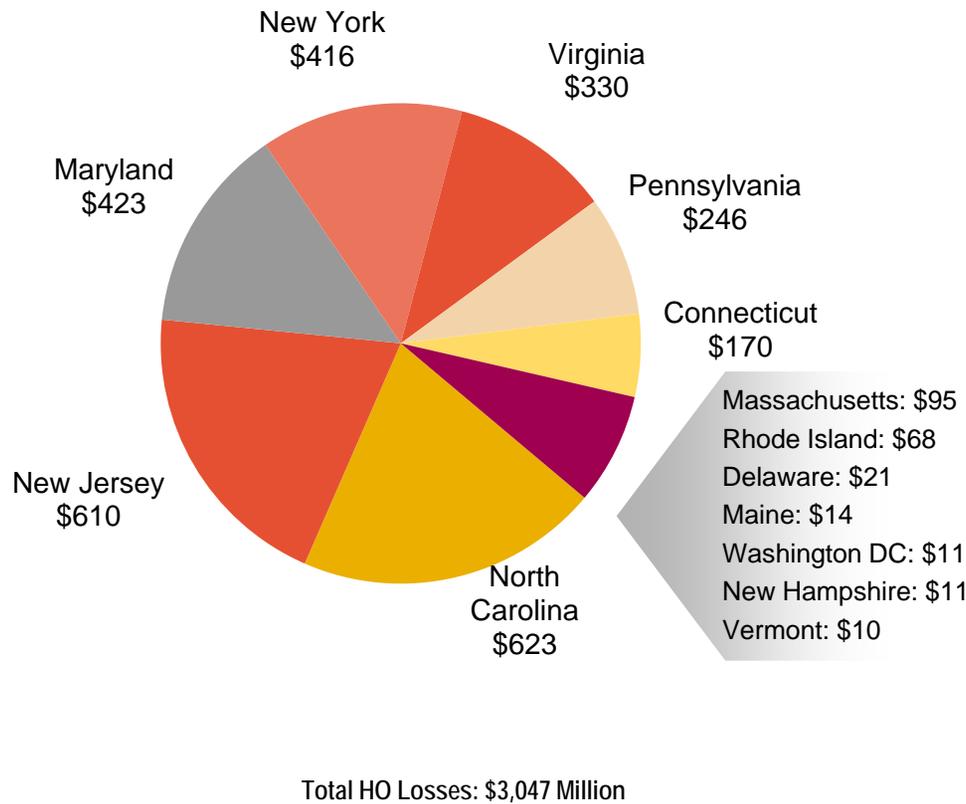
Hurricane Wilma — October 2005



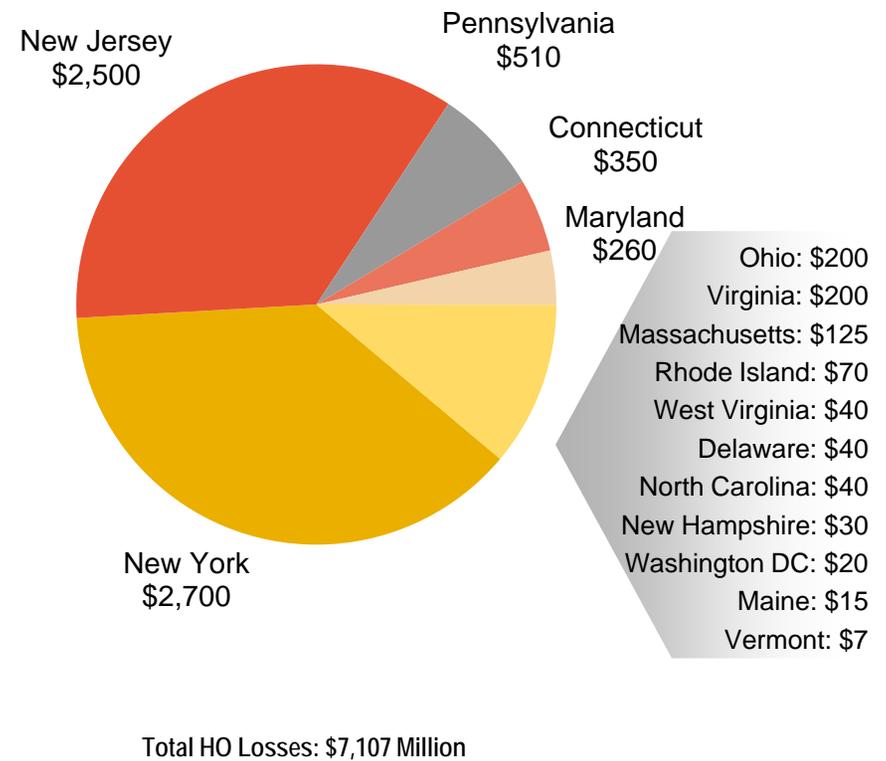
# The Northeast has suffered record losses over the past few years

## Homeowners Catastrophe Losses (in Millions)

Hurricane Irene — August 2011



Superstorm Sandy — October 2012



Source: PCS through April 2013.  
[towerswatson.com](http://towerswatson.com)

## Homeowners losses are dominated by fire/lightning, wind/hail and water damage/freezing claims

### Distribution of Homeowners Losses by Peril\*

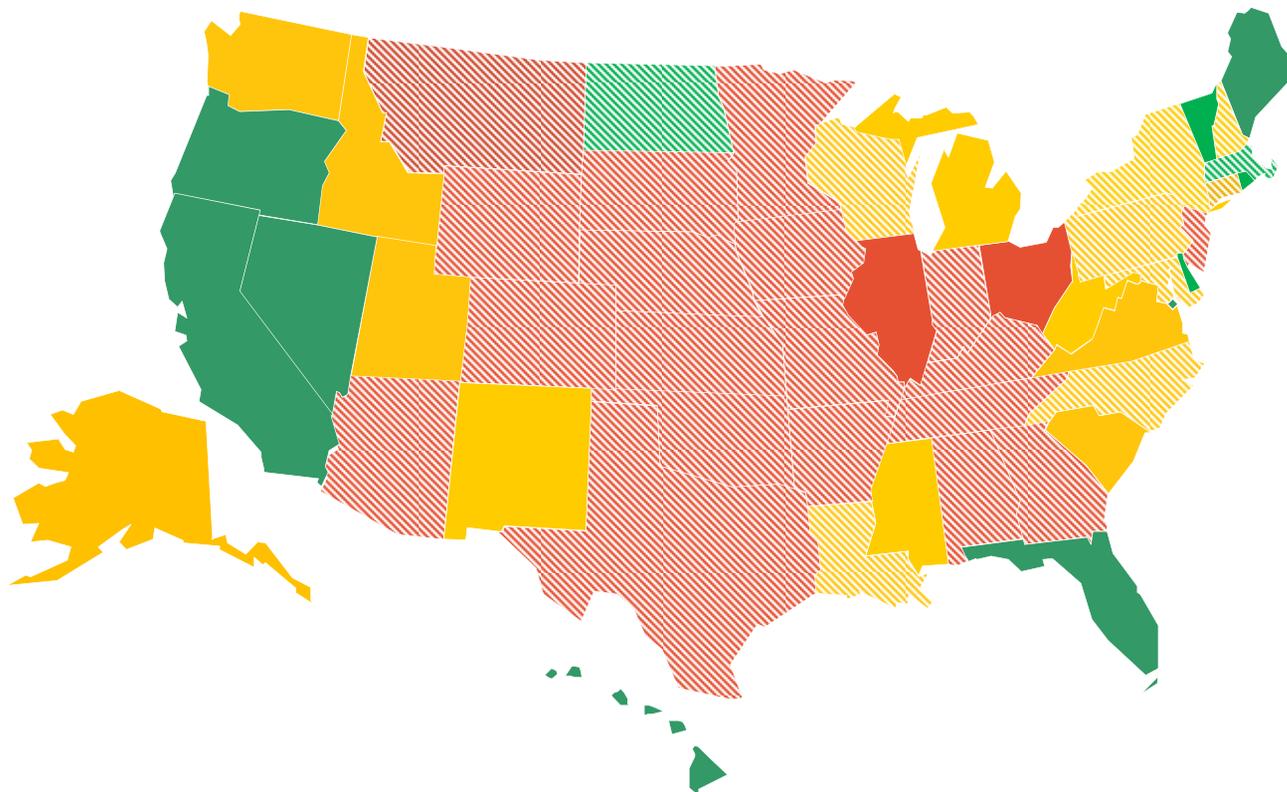
Cause of Loss	2006	2007	2008	2009	2010
<b>Property Damage</b>					
Fire, lightning and debris removal	32.3%	38.8%	28.1%	27.9%	27.4%
Wind and hail	28.5%	17.6%	33.6%	30.8%	33.5%
Water damage and freezing	19.7%	24.0%	22.3%	24.7%	22.3%
Theft	3.3%	3.4%	3.1%	3.3%	3.2%
All other property damage	9.2%	9.2%	7.9%	8.7%	10.3%
<b>Liability</b>					
Bodily injury and property damage	6.6%	6.7%	4.8%	4.2%	3.0%
Medical payments and other	0.3%	0.2%	0.2%	0.3%	0.2%
Credit card and other**	0.1%	0.1%	0.1%	0.1%	0.1%

\*Percent of incurred losses.

\*\*Includes coverage for unauthorized use of fund transfer cards, forgery and counterfeit currency. Distribution is 0.01% or less each year.

Source: Insurance Information Institute.

# Homeowners experience has been the worst and most volatile in the Midwest. Experience has been good and stable in the West and Florida



States in Each Category*	
Solid Green	10
Striped Green	2
Solid Gold	10
Striped Gold	8
Solid Red	2
Striped Red	19

Color for Loss Ratio**	
Green	0% – 50%
Gold	50% – 70%
Red	over 70%

Intensity for Volatility** (Std Dev of Annual LR)	
Solid	under 15%
Striped	over 15%

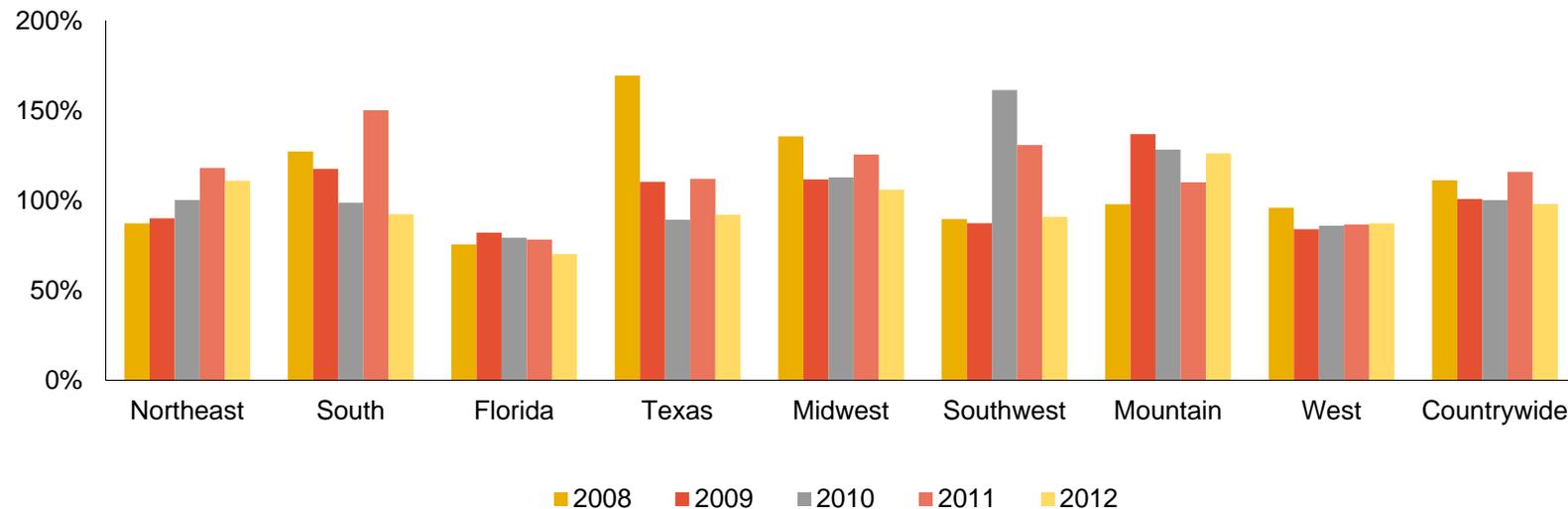
24% of the 2008 – 2012 direct written premium volume has been in states with low loss ratios and low volatility (solid green); 35% has been in states with high loss ratios and high volatility (striped red)

\*Includes 50 states and Washington DC (solid green).

\*\*Based on calendar year incurred loss ratios (excluding LAE) from 2008 to 2012 (including catastrophes), SNL.

## Volatility in the homeowners combined ratios is not limited to hurricane-prone states

### Direct Combined Ratios (Including Catastrophes)



#### Regional Segment Trends

- The Northeast had stable experience until recent years
- The favorable experience in Florida is a result of low hurricane activity
- Texas and the Midwest show poor experience in 2008, caused by hurricane activity and winter storms
- Poor experience in the Mountain states is a result of winter storms
- The high 2010 combined ratio in the Southwest was caused by a hailstorm in Arizona

Note: Texas and Florida shown separately; not combined with other regional groups.

Source: A.M. Best; Towers Watson analysis.